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THE USE OF ACCOUNTING INFORMATION BY POLITICIANS AND THE ROLE OF THE BROKERS

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OUTLINE OF THE PRESENTATION

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4. The Portuguese case (Central Administration)
   - Main purpose
   - Methodology
   - Broad outline of the intermediary bodies
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5. Conclusions

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1. Introduction

- *Users of accounting information* – seminal topic within the conceptual framework underlying either business accounting or public sector accounting standards
- In PSA – recent debate:
  - Are politicians in fact users of accounting information?
  - Which information in particular?
  - Do they resort to accounting at all, as a tool/source for information in their daily activities?

Topic of this research is right at the core of this debate

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Debate on "WHY POLITICIANS LACK INTEREST IN ACCOUNTING INFORMATION?"

- Lack of expertise leads to underestimate the value of accrual accounting (high technicality and complexity)
- Selective use
- Scholars fail to understand financial topics that matter to them

Ask what politicians want, need, avoid, prefer…

Go back to the users' needs research

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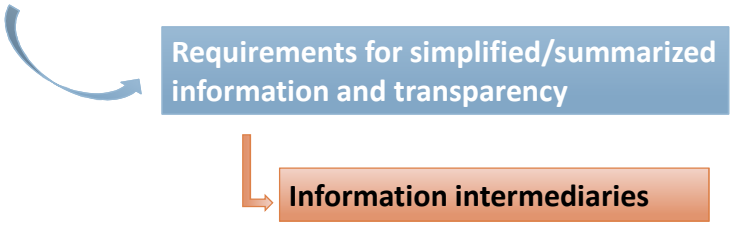
Debate on "WHY POLITICIANS LACK INTEREST IN ACCOUNTING INFORMATION?"

- Information overload (derived from multiple interests of different stakeholders and multi-dimensional accountability requirements)
- High quantity of information, low quality for decision-making
- Information is symbolically used



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IPSASB Conceptual Framework (adapted to the Portuguese SNC-AP)

- The **objectives** of financial reporting by public sector entities are to provide information useful to users of GPFRs for accountability and decision-making purposes (§2.1)
- Assumes as **main users** (*addressees???*) of accounting information (GPFRs) (§2.4):
  - **CITIZENS** – service recipients and resource providers as taxpayers, who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes
  - Citizens' representatives, namely **POLITICIANS**

«The **legislature** (or similar body) and **members of parliament** (or a similar representative body) are also primary users of GPFRs, and **make extensive and ongoing use of GPFRs** when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives.»

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2. Questions

- **Do politicians (namely members of Central Government and of Parliament) really use accounting information (budgetary and financial reporting)?**
- **If they do use, which type of information (budgetary and financial) do they use/prefer, for which purposes in particular and how they find it useful?**
- **If they do not use, why? Would the information be too technical considering the expertise of (the majority of) politicians?**
- **To what extent do politicians resort to experts with accounting information knowledge to help in their decision-making?**
- **If politicians do not resort to such assistants, what can be done to help them to better understand and use accounting information, namely for decision-making and for public sector financial management overall?**

WHAT IS THE USEFULNESS OF THE NEW SNC-AP IN THIS CONTEXT?

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3. Information brokers (I)

- Have an asymmetric relationship with the information users – intermediaries have access to more information and have, *a priori*, more knowledge
- When bridging between information sources and information users, their **behaviour might not be so neutral** – more or less affecting the interpretation, use and usefulness of financial information (Birnberg et al., 1983; Heald, 2003)
- If users do not instruct intermediaries about the information they require, those might "manage it" at their will, following their own "agendas" (Birnberg et al., 1983; Heald, 2003) – potentially distorting behaviours

- **What is then the role of technical units supporting politicians and how this role affects the use and usefulness politicians make of financial and budgetary information?**
  - Which circumstances lead an intermediary to have a role more *neutral* or more *agenda-setting*?

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3. Information brokers (II)

Ranking of intermediaries' behaviour according a neutrality scale, considering the circumstances they act:

- **Level 1** – Giving a summary of complex technical information, but serving neutrality by aiming at providing a comprehensive view of the information – ***aggregating***.
- **Level 2** – Interpreting complex technical information, meaning to include narratives to the available financial figures and explanations according to certain standards – ***analysing***.
- **Level 3** – Guiding the users of information by highlighting certain issues that could lead to fruitful debates – ***focusing***.
- **Level 4** – Selecting information, i.e., concentrating on information which is seen as most relevant for decision-making – ***filtering***.
- **Level 5** – Moulding the information according to their own agenda – intending to affect politicians' debates and decisions – ***agenda-setting***.

Brokers are **likely to affect politicians' perceptions** of budgetary and financial information, so **they might come to affect the use and usefulness politicians consider** that information to have for their overall activities.

4. The Portuguese case (I)

- **Main purpose**

Analysing which **type of information** is used, as well as its **uses and usefulness**, by **politicians** either members of **Parliament** or members of **Central Government in Portugal**, **through the analysis** of the **intermediary role of advisory and supporting technical bodies**, such as CFP, UTAO and DGO.

- Clarifies on the use of budgetary and financial information by politicians
- Highlights the role of technical intermediaries (experts), possibly affecting financial information use in the political setting
- Raises questions about politicians being assumed as primary users of public sector entities' GPFR

4. The Portuguese case (II)

- **Methodology**
  - Qualitative and interpretative approach
  - Contextual study
  - Semi-structured interviews based on two guiding scripts – one for the technical units and the other one for politicians
  - Interviews conducted during March and April 2015
  - Qualitative direct content analysis

Technical and advisor units (5)

- two members of CFP (including the head of the body)
- two members of UTAO (including the head of the unit)
- Budget General Director

Politicians (2)

- Budget Secretary of State
- Head of the Parliamentary Commission of Budget, Finance and Public Administration (COFAP)

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4. The Portuguese case (III)

- **Broad outline of the intermediary bodies (brokers)**

Technical supporters and advisors of politicians (Central Government and Parliament)

- **Technical Unit of Budgetary Support (*UTAO*)** – acts under the Parliamentary Commission of Budget, Finance and Public Administration (COFAP), generally providing technical support on these topics to parliamentarians
- **Budget General Department *(DGO)*** – works within the Ministry of Finance and, apart from preparing information specific to this Ministry, also gathers information from all Ministries, being one of the main preparers of aggregated budgetary and financial information regarding the public sector as a whole, reporting to support accountability and decision-making
- **Public Finance Council *(CFP)*** – acts as an independent external advisory body, assessing and monitoring sustainability and transparency of public finance in its broader sense

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4. The Portuguese case – part 1

JORGE, Susana; JESUS, M. Antónia; NOGUEIRA, Sónia; «Do politicians at central level use accounting information? Some evidence from the Portuguese case»; *Revista AECA*, 115, Septiembre 2016, pp.35-39.

OBJECTIVE

- To analyse the type of information, as well as its use and usefulness, by politicians at Central level in Portugal, answering the questions:
  - **Which type of budgetary and financial information is used by politicians (either parliamentarians or members of Government), for what purposes and which ones they find more useful?**
  - **Which type of budgetary and financial information is used and prepared by technical advisory bodies, either voluntarily or required by politicians?**
- Interviews to:
  - **Politicians** – Chair of COFAP and Budget Secretary of State
  - **Entities preparing information for politicians** – UTAO (for the Parliament), and DGO (for the Government)

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Main findings (I)

Politicians	Technical units
– Associate accrual accounting to the National Accounts and to the European System of Regional and National Accounts (ESA) that they found of utmost importance so as to monitor the accomplishment of the EDP/Maastricht criteria and other macro targets. They do not think of accruals in terms of the accounting and financial reporting at micro level. – The politician member of the Government acknowledges that accrual-based financial micro information from public sector entities, even if aggregated, is not yet reliable. – For policy making and assessment of public policies, if some information is used is that concerning the budget, budgetary accomplishment (cash-based) and monitoring fiscal targets (some accrual within the National Accounts). Micro financial information does not seem to be used at all, let alone at each entity level.	– Politicians, as the bodies themselves, are aware of the distinction between cash-based and accrual-based accounting, although most of the times the latter is seen as the National Accounts, especially by politicians and the UTAO. – Despite some accrual-based financial information being already gathered by DGO, it still lacks reliability, so the information reported by this body for politicians and other users is essentially cash-based budgetary information. – Public sector entities' accrual-based financial information, though already gathered by DGO, is not at all used (or has only a very minor and eventual use) in the data gathered and the analyses provided by the technical advisors/intermediaries considered.

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Main findings (II)

- The information used by politicians, regardless whether cash (budgetary governmental accounting) or accrual (National Accounts), seems to be relevant to support economic and political analyses and debates, but not so important for decision-making concerning public policies.
- Technical intermediaries are seen as almost indispensable – DGO particularly for politicians in the Government and UTAO for the Parliamentarians. UTAO is particularly seen as very important to provide information so as to improve the quality of the public debate in the Parliament and in the *media*.

- Politicians prefer simple, clear and straightforward information, and especially those in Parliament use both cash-based budgetary micro information and accrual-based macro information (National Accounts) either to support the political debate or the legislative process, as well as to sustain the role of the Parliament as monitoring the Executive's action.
- They are recognised as highly valuable, namely providing politicians the information they need (and sometimes might require) in a simpler and more understandable way, considering their often lack of expertise in budgetary and financial matters. Even if not able to appreciate whether this is making difference in the way decisions on public policies are made, technical units believe their role is central in providing reliable information where politicians might base their judgements.

In this technical units there are NO PEOPLE WITH ADEQUATE EXPERTISE IN ACCOUNTING; Economists prevail…

4. The Portuguese case – part 2

JORGE, Susana; JESUS, Maria Antónia; NOGUEIRA, Sónia; «Information brokers and the use of budgetary and financial information by politicians: the case of Portugal»; *Public Money and Management*, Vol. 36(7), 2016, pp.515-520.

- Technical units are, in fact, acknowledged as important to prepare information for politicians…
- They are 'information brokers' (Heald, 2003) or 'informational intermediaries' (Fung, 2013) – who, holding the necessary expertise, might act to **improve the use and usefulness politicians make of budgetary and, above all, financial reporting** – eventually impacting on the political debates and decision-making

What is the role of the technical advisors (intermediaries) and how does it affect the use and usefulness of budgetary and financial information by politicians?

Perhaps not always so neutral…

Main findings (I) (interviews to DGO, UTAO and CFP)

- **Undeniable importance of technical intermediaries** in the preparation of budgetary and financial information for politicians (both in the Parliament and in the Central Government in Portugal) – support the use and usefulness politicians make of that information
- Their **knowledge and expertise are recognised**, namely in providing information politicians need (and sometimes, require) in a simple, credible and understandable way – **VERY CONVENIENT CONSIDERING THE LACK OF EXPERTISE OF POLITICIANS IN THESE MATTERS**

- Brokers' role is essential to prepare information for
  - Politicians to base their decisions and judgements
  - Improving the quality of public debate in the Parliament and in the *media*
- BUT… empirical analysis **in the Portuguese context has evidenced that, in preparing their reports, brokers might have a role relatively neutral or relatively biased**, hence more or less affecting politicians' perceptions and the use they make of that information

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Main findings (II) (interviews to DGO, UTAO and CFP)

- Brokers in general **follow their own activity plan** established by the politicians they work for; still, **they have some discretion in preparing their reports** according to their professional background and judgement, choosing the format and contents they find more appropriate to fulfil politicians' needs
- In this process, **some brokers go beyond mere data aggregation (neutrality), to analyse, focusing and filtering information**, eventually introducing **a biased effect** – although non-intentionally
- **There was no evidence of brokers' behaviour according to level 5 of neutrality (*agenda-setting*)** – none of the technical units analysed showed any evidence of "moulding" the information they prepare according to their own agenda or interests, intending to affect politicians' agenda. However, all have underlined that they have an **activity plan** to fulfil, established in their own statute, which they rigorously accomplish, so as **to legitimise their functions.**

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Main findings (III) (interviews to DGO, UTAO and CFP)

- Although some of the reports brokers prepare are based on accrual information – which they consider to be the National Accounts – they prepare information essentially cash-based – WHY?
  - As it is overall accepted, **accrual-based information individually prepared by entities is not yet reliable**, therefore not susceptible to be aggregated and used for political debate and/or political decision-making
  - **Background** of technical brokers is in Economics, Public Administration and Law, and **NOT IN ACCOUNTING** – this seems to **mould their preferences** when preparing their analyses and reports, leaving for a secondary place accrual-based financial information, which is misunderstood with ESA and the National Accounts
- These findings might justify **why cash-based budgetary information remains as that one politicians at central level in Portugal continue to prefer and based their activities** – **THEY ARE NOT OFFERED OTHER TYPE OF INFORMATION**

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Conclusions (I)

PART 1

- Politicians at central level in Portugal give privilege to cash-based budgetary information
- Accrual-based financial information is misunderstood with ESA, hence serving essentially to supranational reporting
- Politicians relate their needs of financial information with the National Accounts – understandable considering the external political commitments (EDP, Maastricht criteria, etc.)

PART 2

- Brokers might, indeed, have less neutral behaviours when preparing budgetary and financial information for politicians, eventually introducing a bias effect, according to their knowledge and preferences
- That bias effect might not be intentional but derives from a "background bias"…

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Conclusions (II)

- Technical conditions for an integrated system of Public Sector Financial Management are on their way… (e.g. State as reporting entity, LEO, SNC-AP, WGA…)
- However…
  - **Politicians must adopt a more critical attitude when relying on information prepared by brokers**
  - **Politicians need to be better elucidated about the potentialities of accrual-based financial information for decision-making and political debate – hence for a better Public Sector Financial Management – BECOMING REAL USERS OF FINANCIAL REPORTING**
  - **It is important, specially within the new SNC-AP, to call to the debate the relevance of accrual-based financial information**
  - **Technical units providing support to politicians must be called to a more intervenient role in this reform process, by reinforcing the Accounting expertise of their members**

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Thank you for your attention!

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